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BEFORE THE ARIZONA CORPORATION COMMISSION

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Commissioner

BRENDA BURNS  
Commissioner

AZ CORP COMMISSION  
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

SEP 14 2011

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IN THE MATTER OF THE APPLICATION )  
OF ARIZONA-AMERICAN WATER )  
COMPANY, AN ARIZONA )  
CORPORATION, FOR A )  
DETERMINATION OF THE CURRENT )  
FAIR VALUE OF ITS UTILITY PLANT )  
AND PROPERTY AND FOR INCREASES )  
IN ITS RATES AND CHARGES BASED )  
THEREON FOR UTILITY SERVICE BY ITS )  
AGUA FRIA WATER DISTRICT, HAVASU )  
WATER DISTRICT, AND MOHAVE )  
WATER DISTRICT. )

DOCKET NO. W-01303A-10-0448

NOTICE OF FILING  
TESTIMONY OF KEVIN  
TILDEN

Attached is the Testimony of Kevin Tilden filed on behalf of Arizona-American  
Water Company.

RESPECTFULLY SUBMITTED this 14th day of September, 2011.

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ORIGINAL and thirteen (13) copies  
of the foregoing filed  
this 14th day of September, 2011, with:

1 The Arizona Corporation Commission  
2 Utilities Division – Docket Control  
3 1200 W. Washington Street  
4 Phoenix, Arizona 85007

5 Copy of the foregoing hand-delivered  
6 this 14th day of September, 2011, to:

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12 Teena Jibilian, Administrative Law Judge  
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23 Copy of the foregoing mailed  
24 this 14th day of September, 2011, to:

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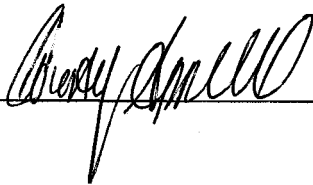
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE, Chairman  
BOB STUMP  
PAUL NEWMAN  
SANDRA D. KENNEDY  
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN WATER COMPANY,  
AN ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE CURRENT FAIR  
VALUE OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN ITS  
RATES AND CHARGES BASED THEREON  
FOR UTILITY SERVICE BY ITS AGUA FRIA  
WATER, HAVASU WATER AND MOHAVE  
WATER DISTRICTS

DOCKET NO. W-01303A-10-0448

**TESTIMONY  
OF  
KEVIN TILDEN  
ON BEHALF OF  
ARIZONA-AMERICAN WATER COMPANY  
SEPTEMBER 14, 2011**

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KEVIN TILDEN  
ON BEHALF OF  
ARIZONA-AMERICAN WATER COMPANY  
SEPTEMBER 14, 2011

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1

2 **EXECUTIVE SUMMARY**

3 Kevin Tilden testifies regarding the Company's noticing error in the Agua Fria District and the  
4 measures being taken to ensure that it does not occur again. He also confirms that this error  
5 did not affect the billing determinants used in this case.

6

7

**I     INTRODUCTION AND QUALIFICATIONS**

**Q.     PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE  
NUMBER.**

A.     My name is Kevin Tilden. My business address is 1033 B Avenue, Suite #200,  
Coronado, CA 92118; and my telephone number is 619-435-7402.

**Q.     BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A.     I am employed by American Water Works Service Company as Director of External  
Affairs.

**Q.     PLEASE BRIEFLY OUTLINE YOUR RESPONSIBILITIES IN ARIZONA AS  
DIRECTOR OF EXTERNAL AFFAIRS.**

A.     In the states of Arizona, California, Hawaii and New Mexico, I am responsible for  
customer communication including websites, conservation outreach, media relations,  
special events, and bill inserts.

**Q.     WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A.     As directed by the Administrative Law Judge, the purpose of my testimony is to address  
the customer notification issues experienced by Arizona-American Water Company  
("Arizona-American" or "Company") in the Agua Fria Water District in this rate case.

**II     ERRORS EXPERIENCED WITH FEBRUARY 2011 BILL INSERTS**

**Q.     WHAT METHOD DID THE COMPANY USE TO NOTIFY CUSTOMERS IN  
THIS RATE CASE?**

A.     As required by the January 20, 2011 Procedural Order, the Company utilized a bill insert  
method to notify customers of the pending rate case.

1 **Q. WHAT WAS THE PROBLEM WITH THIS NOTIFICATION, AND WHEN DID**  
2 **YOU BECOME AWARE OF IT?**

3 **A.** On July 25, 2011, the Company undertook an internal examination as to whether all  
4 customers in the Agua Fria Water District received the required customer notice. This  
5 was undertaken in response to persistent and continuing allegations regarding a lack of  
6 notice made by Mr. Ken Hewitt, a customer and intervenor in this proceeding.

7 After this investigation, the Company discovered two errors:

- 8 1. Arizona-American Water used an incorrect Agua Fria customer count and only  
9 printed 31,000 Agua Fria inserts.
- 10 2. Other customer classifications (the non-regulated Surprise O&M Water Service)  
11 mistakenly received the Agua Fria Rate Case Notice.

12 **Q. PLEASE EXPLAIN IN GREATER DETAIL HOW THIS OCCURRED.**

13 **A.** The billing insert process is controlled by American Water Works Services Company  
14 employees using an outside mailing vendor. For the February 2011 mailing, these  
15 employees relied upon PWSID (public water system ID) codes to identify those  
16 customers in the Agua Fria Water District. Two issues arose as a result of the use of the  
17 PWSIDs. First, certain PWSIDs that are part of the Agua Fria Water District  
18 (approximately 7,000 customers) were not included in the list of customers to receive the  
19 insert. As a result, an insufficient number of bill inserts was ordered for the Agua Fria  
20 Water District (approximately 31,000). Second, certain individuals within the list of  
21 customers slated to receive the insert were unregulated O&M customers (these are  
22 customers of the City of Surprise for which American Water Enterprises provides billing  
23 services and they are not regulated water customers). Thus, due to some bill inserts being



1 sent to unregulated customers (approximately 4,000) and due to too few inserts being  
2 ordered for the Agua Fria Water District, the inventory of bill inserts was depleted on  
3 February 22, 2011. Unfortunately, when the bill inserts became depleted, the mailing  
4 vendor did not contact American Water.

5 **Q. HOW MANY CUSTOMERS WERE AFFECTED?**

6 **A.** Approximately 11,000 Agua Fria Water District customers did not receive the required  
7 notice.

8 **III REMEDIAL ACTIONS TAKEN BY THE COMPANY**

9 **Q. WHAT ACTION DID THE COMPANY TAKE ONCE IT BECAME AWARE OF**  
10 **THIS ISSUE?**

11 **A.** Representatives from Arizona-American immediately notified the Commission and all  
12 parties to the proceeding to ensure that each was aware of this issue. A procedural  
13 conference was also convened on August 2, 2011 to disclose the issue to the Hearing  
14 Division and to propose a remedy. Following that procedural conference and in  
15 accordance with a Procedural Order dated August 2, 2011, the Company sent a first-class,  
16 direct mail version of the notice to the entire Agua Fria Water District (approximately  
17 38,000 customers) on August 5, 2011. Arizona-American Water also continued its  
18 internal investigation in order to ensure this error would not occur in the future. Lastly,  
19 Arizona-American is repeating the bill insert during the month of September and is  
20 conducting a daily real time check on these inserts to confirm they are being distributed.

21 **Q. DID THE COMPANY SIGN AN AFFIDAVIT THAT NOTICING HAD BEEN**  
22 **COMPLETED IN ACCORDANCE WITH THE ORDER? IF SO, WHY?**

23 **A.** Yes, an affidavit was signed on March 17, 2011, by Mr. Barry Pawelek, Customer  
24 Communications Manager in the External Affairs Department. At the time he signed the

1 affidavit, to his knowledge and to the knowledge of everyone in our Department, all of  
2 the notices had been properly distributed by bill insert. As a result, Mr. Pawelek did not  
3 perform any additional research as to the bill inserts. It was not until much later (as  
4 described above), that the Company became aware of the noticing issue.

5 In addition, to respond to questions posed by Mr. Hewitt, at the time of the Company's  
6 response to his June 3, 2011 motion, the Company and its counsel had no reason to  
7 believe the affidavit was not accurate or to ask additional questions. In hindsight, the  
8 Company, of course, wishes it would have asked those questions.

9 **Q. WHAT STEPS IS THE COMPANY TAKING TO ENSURE THAT THIS DOES**  
10 **NOT OCCUR AGAIN?**

11 **A.** After an internal investigation of this issue, we are convinced that we fully understand the  
12 error and how to ensure that it does not happen in the future. The investigation into this  
13 issue included testing inquiries into customer coding, examining customer counts of all  
14 Arizona districts (regulated or non-regulated), as well as critiquing the process of how the  
15 bill insert process is conducted. For future bill inserts, the Company will use codes that  
16 are very specific to the customers within each district and will not use PWSIDs for  
17 coding purposes. It is also likely that the Company will use direct mailing for certain  
18 required notices.

19 As noted during Procedural Conference on August 2, 2011, Arizona-American is testing  
20 the new bill insert process by sending a duplicate Rate Case Customer Notice in all Agua  
21 Fria Water customers' September bills. As part of this test, Arizona-American is  
22 monitoring daily the Agua Fria billings throughout September to ensure that all Agua  
23 Fria customers receive this duplicate notice.

1 In addition, to eliminate the failure of communication that occurred in February, Arizona-  
2 American will now receive immediate, direct communication if a bill insert does not  
3 fulfill its complete insertion cycle. The typical process is for the mailing vendor to  
4 contact American Water to determine whether to (i) proceed with billing, (ii) hold bills  
5 until additional inserts are received or (iii) utilize another method to contact the  
6 remaining customers. As stated above, the process will now include a direct  
7 communication by American Water to Arizona-American to assist with this  
8 determination.

9 Following additional research, which included discussions with Barry Pawelek; Terry  
10 Cherubini, a Correspondence Specialist in the IT Department; and Regulus, the mailing  
11 vendor, I have learned that, despite the process noted above, Regulus did not contact  
12 anyone at American Water when the bill inserts became depleted. Regulus is a national  
13 vendor that works with many companies, utilities, and municipalities. Regulus's normal  
14 process is to contact clients when they run out of bill inserts, and in this instance, all  
15 machines and monitoring mechanisms worked properly. Based on my discussion with  
16 Regulus, they believe that the failure resulted from human error, as a Regulus employee  
17 failed to notify the supervisor of the bill insert shortage, which meant that American  
18 Water was not notified as well.

19 I recognize that this is contrary to a prior conversation that Ms. Cherubini had with Mr.  
20 Hewitt; however, Ms. Cherubini has since conducted additional research confirming that  
21 she did not receive notice from Regulus, and, as noted above, I have personally  
22 confirmed this with Regulus. I would also note that at the time of her response to Mr.  
23 Hewitt's data response, Ms. Cherubini was not aware of the extent of or exact cause of  
24 the issue. As noted above, I have now confirmed that the actions that Mr. Hewitt  
25 believes should have been disclosed in fact did not occur. Regardless, the Company

1 recognizes that an error in the process occurred and is taking measures to make sure that  
2 it does not occur again.

3 **IV BILLING DETERMINANTS**

4 **Q. COULD THE SAME ERRORS THAT LED TO THIS FAILURE TO NOTICE**  
5 **ALSO HAVE CAUSED INCORRECT BILLING DETERMINANTS?**

6 **A.** No, this error occurred within the bill insert process in February 2011. The test year  
7 actual bill counts and billing determinants for each month of the test year ending June 30,  
8 2010, are correct. They were obtained from a download of data from the Company's "E-  
9 CIS" system. The download was performed by a very experienced senior analyst in the  
10 shared services rates department located in Cherry Hill, New Jersey. The download  
11 contained customer count and billing determinant data from each and every rate schedule  
12 in effect in the Agua Fria district. Within the Company's databases, rate schedules are  
13 coded uniquely by district. Furthermore, as a check, the revenue totals from the  
14 download were successfully verified against the actual general ledger at the district level  
15 for the same period as the test year. As a result, an amended or supplemental application  
16 is not necessary.

1    **V     CONCLUSION**

2    **Q.    IS THERE ANYTHING ELSE YOU WOULD LIKE TO ADD?**

3    **A.**I, as well as the Company, regret both the failure to notice customers and the non-  
4           compliance with a Commission order. I assure you that it was unintentional, and, once  
5           we became aware of the errors, we took appropriate steps to remedy the issue with our  
6           customers, the parties to this proceeding, and the Commission.

7    **Q.    DOES THAT CONCLUDE YOUR TESTIMONY?**

8    **A.**Yes.